

The Presidio Group aims to share the firm’s dealership valuation expertise and insights on the latest trends in mergers and acquisitions. The Presidio team’s viewpoint and data analysis are informed, in part, by our work with many of the country’s biggest, and most influential, dealership groups. These relationships give us an insider’s view of how experienced and sophisticated operators value deals in the real world. Our analysis includes:

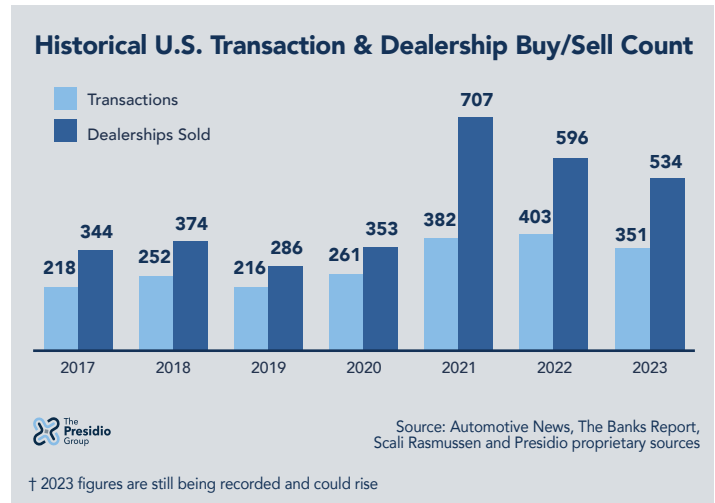
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## Overall Market Update

Dealership transaction volume occurred at a brisk pace in 2023. Presidio so far has tracked 351 transactions in the U.S. last year. That is preliminary and likely to rise as more deals are reported for 2023. If nothing changed, however, that would represent a 13 percent decline from the record 403 transactions in 2022, as reported by Automotive News. The transactions counted so far for 2023 involved 534 dealerships, down about 10 percent from the 596 stores that traded hands in 2022, according to Automotive News. As more deals are recorded for 2023, transaction pace could end up being on par with 2022. Either way, deal volume remains well above pre-pandemic levels.

At year-end 2023, there were 18,347 franchised dealerships in the U.S., according to Urban Science. Private dealers owned 94 percent of stores, while public consolidators held 6 percent. According to the National Automobile Dealers Association, 92 percent of U.S. dealers owned one to five franchised stores as of mid-2023.

Private dealers continue to lead the way on acquisitions, accounting for 97 percent of all transactions recorded so far for 2023. Public groups collectively spent more than \$3.6 billion on acquisitions in 2023, including buying 52 stores in

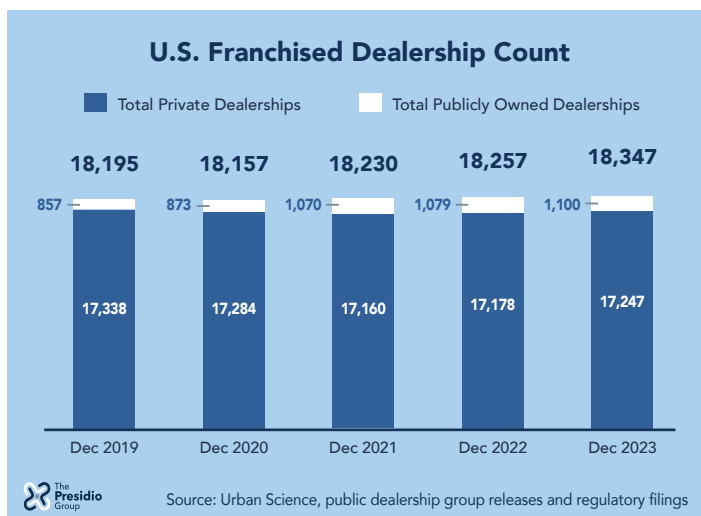


**“Acquisitions are more costly than we can buy our own stock back. So...we’re looking at buybacks versus M&A at parity.”**

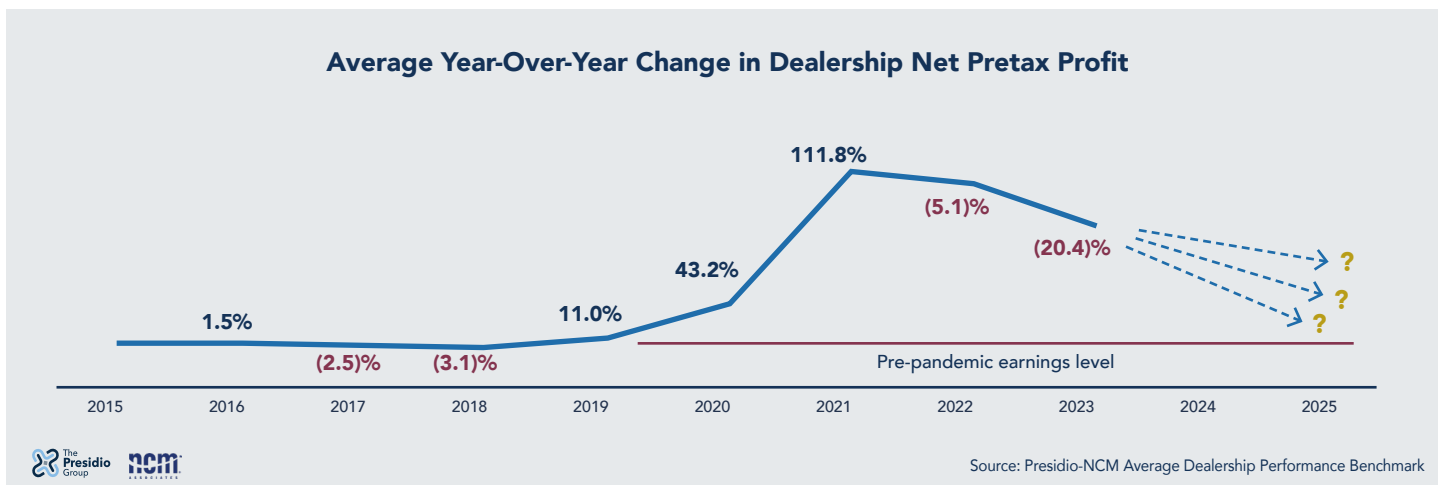
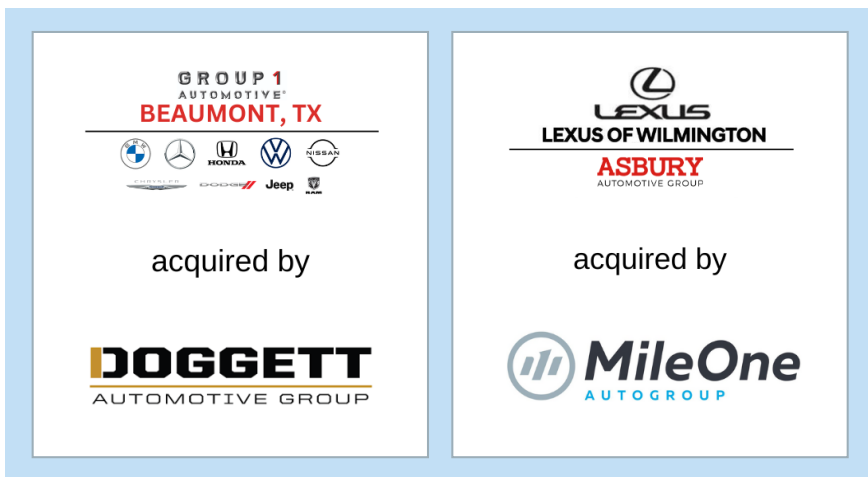
— Lithia Motors CEO Bryan DeBoer on Lithia’s fourth-quarter earnings call

the U.S. The publics also divested 25 stores last year. Some of these consolidators also are expanding overseas. Lithia Motors in March 2023 acquired Jardine Motors, with more than 40 franchise points in the United Kingdom, and in early 2024 purchased Pendragon and its 160 U.K. outlets.

While Presidio expects the publics will continue to buy high-caliber dealerships to further strategic growth, several have adjusted their approach to total shareholder returns. What this means is even the most acquisitive groups are now considering stock buybacks and dividends in addition to acquisitions. Steady deal-making by certain publics — a few made large financial commitments for acquisitions in late 2023 and early 2024 — is certainly eating into their liquidity reserves. But given the incredible profitability of recent years, the publics’ capital resources are still robust across the group.



Some of the notable deals by the publics in the first quarter of 2024 included acquisitions and divestitures. Group 1 Automotive sold a platform of six dealerships in Beaumont, Texas. Presidio exclusively advised Group 1 on that deal. In recent weeks, Group 1 also acquired two large Lexus stores in California, Mercedes-Benz and Honda stores in South Carolina and RRR Automotive Group in Maryland with five new-vehicle dealerships. Soon after acquiring Jim Koons Automotive Companies in December, Asbury Automotive Group divested one of the Koons stores, a Lexus dealership in Delaware. Presidio exclusively advised Asbury in that transaction. In addition to the previously mentioned Pendragon transaction, Lithia acquired the nine-store Carousel Motor Group based in Minneapolis.



The industry’s four-year wave of robust earnings, which resulted in record dealership valuations, is waning. Inventories and margins have begun to normalize, and expenses are increasing. Though 2023 was the third-most profitable year on record and earnings remain well above pre-pandemic levels, it is clear that dealership performance is moderating. Presidio calls this transitional period the Great Normalization.

With the changes come a more balanced yet still strong M&A market. It’s no longer a pure sellers’ market, but plenty of buyers remain in the hunt to acquire the limited number of dealerships that come available each year.

***“We’re always in the market because there are certain opportunities that are only going to come up once in a generation.”***

— Liza Borches, CEO of Carter Myers Automotive on Presidio’s Full Throttle podcast

Dealership demand remains strong across all states and geographies, but higher premiums continue to be paid for stores in pro-business states such as Texas, Tennessee and Florida.

## Dealership Valuation Overview

The Presidio team believes every dealership is unique and that the industrywide standard of applying a blue-sky multiple to earnings to determine value is too simplistic and inadequate. Properly valuing these unique businesses requires an in-depth analysis of the specific factors and characteristics. We detail that later in Presidio's Valuation Matrix.

Getting to the right valuation means considering the total investment, not just blue sky. Falling into the trap of solely focusing on blue sky ignores nearly 40 percent of the overall investment equation. Blue sky typically accounts for about 60 percent of total investment in the average dealership, while real estate and other assets make up the remaining 40 percent. The symbiotic relationship among these components correlates to a dealership's total cash flow and, ultimately, return on investment.

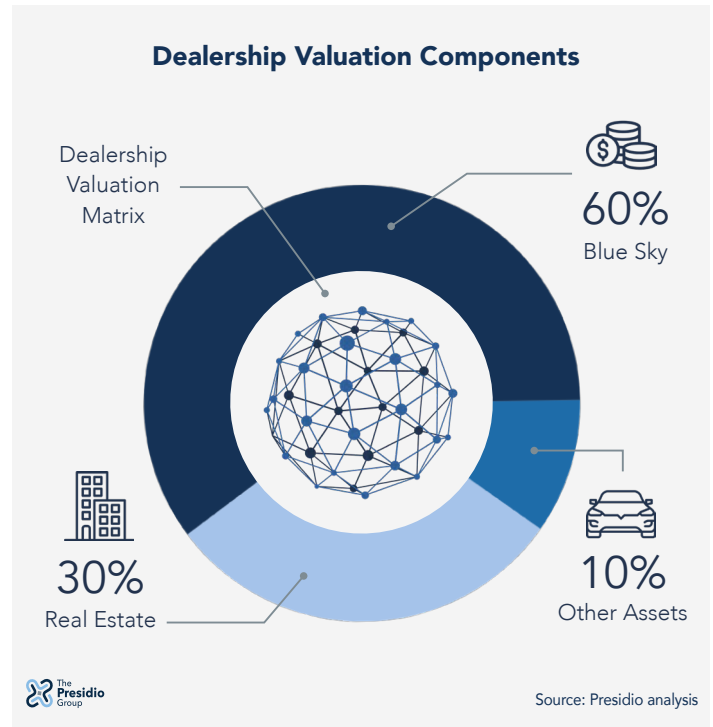
### So what about blue sky?

In its simplest form, total blue-sky value is calculated using earnings before interest, taxes, depreciation and amortization — essentially, pretax earnings — times a multiple. For too long, a majority of dealership buyers and sellers have placed too much emphasis on blue-sky multiples and not enough on the appropriate level of sustainable, long-term earnings or other investment components required to operate dealerships.

The most common question asked of Presidio team members is: "What is my blue-sky multiple?" Presidio focuses very little on multiples, which have remained in a tight band since consolidation activity first escalated more than 20 years ago. At Presidio, we focus most of our attention and expertise toward evaluating earnings, the unique components of each dealership supporting its earnings and the remaining components of the investment equation.

Focusing solely on blue-sky multiples is problematic for several reasons, including:

1. Blue-sky value is driven primarily by earnings, with a focus on pro forma historical earnings, sustainability of future earnings and prospects for earnings growth. Many factors contribute to the unique value of each dealership, with earnings having a greater bearing on ultimate value than blue-sky multiples.
2. Blue sky ignores a significant portion of the total equation — on average 40 percent as referenced earlier. That results in unreliable and incomparable return-on-investment assumptions. Earnings used by many in the industry contain a rent or equivalent expense related to property values that is incorrectly applied.
3. Returns calculated solely on blue sky are not accurate. Buyers and sellers should consider return on investment based on expected future cash flows — in other words, the level of sustainable earnings. What matters is the total investment required, which includes the value of real estate and excludes associated carrying costs, not just blue sky.



**LESS FOCUS ON BLUE SKY → MORE FOCUS ON ROI**

## A quarterly deep-dive into one of the factors driving dealership value

# Presidio's Valuation Matrix Spotlight

### Sustainable Earnings

As dealership performance and profitability continue to normalize, the trajectory and sustainability of earnings is the most important driver of valuations. Many dealers and investors triangulate sustainable earnings by applying a percentage — different for each brand — to revenue to create a high-level metric for earnings expectations.

The Presidio team believes the best predictor of sustainable earnings comes from a well-thought-out projection accounting for geography, brand, local market, macroeconomic environment, consumer demand and individual dealership operational factors.

During this Great Normalization period, sales volumes and margins are the main drivers of earnings but face much volatility. Automaker incentive spending is starting to creep up as inventories increase. Still, some brands remain in high demand with less than 30 days of supply. Asbury Automotive Group CEO David Hult in February noted the retailer was able to hold margin during the fourth quarter for Honda and Toyota, still “in the mid-teens” for days’ supply. A higher days’ supply for Nissan hurt margins for that brand, he said. Brand differences in margins are likely to correct further as supply normalizes.

Here are other key considerations affecting the sustainability and growth of earnings:

1. Estimated new and used volumes based on historical performance, sales efficiency and buyer proclivity. While margins will further deteriorate from current levels, the market’s shift to negotiating price off MSRP vs. invoice may preserve higher overall margins than before the pandemic. It will be more important than ever for dealers to focus on the basics, particularly a customer-friendly sales process and optimal digital strategy.
2. Finance-and-insurance income, now approximately \$1,600 per vehicle at the typical dealership (and at some stores much higher), continues to be a key focus. Strong F&I partnerships and selling practices will be more important than ever to support total vehicle yields as front-end margins feel the pinch.
3. While nothing happens in a dealership without selling a vehicle, parts-and-service performance has the most meaningful impact on earnings stability and helps cover expenses. Paramount to success is driving revenues through best-in-class processes that help capture new customers and retain existing ones while ensuring facility capacity and technician resources. Service growth opportunities abound as consumers keep vehicles longer and pay higher rates to maintain them. Public dealership groups, via acquisition and organic growth, have increased parts-and-service grosses by about 10 percent annually over the past five years.
4. Expense management — which includes optimizing pay plans, eliminating wasteful spend, minimizing vendor obligations and controlling inventory carrying costs — plays a crucial role. It is more important than ever that dealers pay attention to this as the outsized profits of the last few years have led to many bad habits.



As earnings normalize, some brands may fully revert to prior levels, while others are more likely to remain elevated compared with pre-pandemic earnings, albeit not at the records seen in 2021 and 2022. Not all brands are created equal, and Presidio estimates the normalization process for earnings as a percentage of revenues will vary across segments generally as follows:

**Luxury brands: 5-7% | Top-tier import brands: 4-6% | Domestic/Other value brands: 2-4%**

## The Presidio Valuation Index

Historically, brand multiples have commonly been applied to trailing 12-month earnings streams or three-year average earnings streams to calculate blue-sky values.

Given the unpredictability of normalized profit levels, the Presidio team believes earnings as a percentage of dealership revenue is an alternative — and less volatile — concept to apply. After all, using earnings on a trailing 12-month level or across a three-year average captures the peak of the COVID bubble, and 2019 seems a lifetime ago.

Presidio also maintains that ROI is too often calculated incorrectly or not considered.

The Presidio Valuation Index is intended to help stakeholders triangulate an estimated value of a dealership using numerous data points and formulas that consider sustainable earnings, the unique micro and macro characteristics of each dealership and the total investment required (not just blue sky). Here are the approach's three central pillars:

### Blue-Sky Earnings Multiples | Revenue Multiplier (%) | Return on Investment (ROI)



#### Blue-Sky Earnings Multiples

Blue-sky multiple ranges should be cautiously applied once comfort is attained regarding sustainable earnings levels as covered earlier in this section. The various characteristics laid out in Presidio's Valuation Matrix, including brand, growth trajectory and real estate, must be weighed when applying these multiples.



#### Revenue Multiplier

Presidio's revenue multiplier ranges can be applied to normalized revenue streams (so excluding large fleet sales or one-time revenue items) to estimate blue-sky value ranges. The Presidio team believes this proprietary approach using revenue as a value indicator can help buyers and sellers triangulate blue-sky value ranges while mitigating volatility in times of uncertainty. As proven by the last three years, earnings can be erratic, making a calculation based on historical profit level less reliable. But a store's revenue is generally more consistent, making a calculation based on both that and brand a more appropriate predictor of worth.

For example: \$100 million in revenue x 40 percent (the Toyota revenue multiplier) = \$40 million in blue sky



#### Return on Investment

In any investment or M&A decision, return on investment ultimately is all that matters. Since blue sky only accounts for approximately 60 percent of total investment required, an ROI calculation that factors in real estate and other assets required to operate a dealership, while considering appropriate risk levels, is more inclusive and accurate. ROI percentages are the inverse of blue-sky multiples — the higher the ROI, the lower the multiple and vice-versa. In other words, more risk yields more reward. To calculate ROI, one must first understand: a) a dealership's total cash flow (sustainable earnings with rent or related expenses added back) and b) total dealership investment.

# The Presidio Valuation Index

Valuing any business is complex. There is no cookie-cutter approach, and many factors must be considered. But the Presidio Valuation Index can help. It applies the three pillars of valuation and uses other key factors such as a brand's network size and average throughput (the number of new vehicles sold per outlet).

Our guide is still simply a guide though. Anyone looking to sell or buy dealerships should consider turning to experts to conduct a much deeper evaluation to determine value. The experts at Presidio, who have decades of experience and have completed nearly 275 transactions valued at close to \$18.5 billion, are ready to assist.

Presidio Valuation Pillars →	Blue Sky as % of Revenue Range	Blue-Sky Multiple Range	Average Estimated ROI	Number of Dealerships	Number of New Vehicles Sold/Dealership
Lexus	50% - 60%	9.0 - 10.0	<10%	244	1,312
Porsche	50% - 60%	9.0 - 10.0	↑	198	381
BMW	45% - 55%	7.8 - 9.0		349	1,035
Toyota	40% - 45%	7.5 - 9.0		1,237	1,558
↓  Mercedes-Benz	43% - 53%	7.25 - 8.75		384	916
↓  Land Rover	33% - 42%	6.3 - 7.8		202	323
↓  Audi	33% - 40%	6.3 - 7.3		305	750
↑  Subaru	30% - 35%	6.3 - 7.3		640	989
↑  Honda	26% - 35%	6.0 - 7.3		1,070	1,088
Kia	18% - 23%	4.8 - 5.8		788	997
↑  Chevrolet	15% - 20%	4.0 - 5.0		15%	2,898
↓  Hyundai	15% - 20%	4.0 - 5.0	↓	841	956
Ford	14% - 19%	3.8 - 4.5		2,902	648
Volvo	13% - 18%	3.5 - 4.5		282	457
↓  Cadillac	12% - 17%	3.3 - 4.3		567	260
Mazda	13% - 18%	3.3 - 4.3		542	669
↑  Buick-GMC	10% - 15%	3.3 - 4.3		1,671	337
VW	10% - 15%	3.0 - 4.0		640	514
Acura	10% - 15%	3.0 - 4.0		272	536
↓  CDJR	9% - 14%	2.8 - 3.8		2,406	666
↓  Nissan	9% - 14%	2.8 - 3.8		1,079	773
Infiniti	9% - 13%	2.5 - 3.5	20%	201	319

1) Dealership count represents Chrysler outlets

2) Dealership count represents GMC outlets

Source: Presidio proprietary data/analysis, Automotive News Dealer Census